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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934

For Quarter Ended February 29, 1992 Commission File No. 0-5920

LANCER ORTHODONTICS, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	95-2497155 (I.R.S. Employer Identification No.)

6050 Avenida Encinas, Carlsbad, California 92009
(Address of principal executive offices)

Registrant's telephone number, including area code: (619) 438-4112

Former name, former address, former fiscal year if changed since last report

Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock, Without Par Value (Title of Class)	9,013,382 (No. of Shares Outstanding)

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PART I. FINANCIAL INFORMATION

Item 1. SUMMARIZED FINANCIAL INFORMATION

See Exhibit A

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In May 1990 the Registrant changed its year end from August 31 to May 31. For the first nine months of fiscal 1992 the registrant's financial condition was as follows:

	2-29-92	05-31-91	05-31-90
Current Assets.....	$3,252,330	$3,712,561	$4,802,551
Current Liabilities.....	3,813,625	4,526,898	2,675,495
Working Capital.....	(561,295)	(814,337)	2,127,092
Long-Term Debt and Obligations under Capitalized Leases.....	78,741	130,538	1,212,415
Shareholder Equity.....	1,200,373	1,266,952	3,243,193
Total Assets.....	5,092,739	5,924,388	7,131,067

For the nine months ended February 29,1992, net sales decreased $1,902,903 (28.1%) compared to the year earlier period. The decrease was the result of the general state of the economy in the United States, a reduced number of sales representatives, un-availability of products due to equipment problems and the start up of manufacturing in Mexico. The Registrant is undertaking several steps to increase sales including expanding its sales force, expanding its customer base and implementing a telemarketing program.

Cost of sales decreased from 73.4% to 67.3% as compared to the prior year. This decrease is attributable to the reduced cost to manufacture in Mexico and reduction of labor and overhead costs in the U.S.. To improve cost of sales the Registrant continues to move the remaining manufacturing to Mexico, to reduce costs in the U.S. and to invest in new equipment which will provide a cost savings.

Selling and general & administrative expenses decreased $852,616 (33.3%) in the first nine months. The decrease is the result of reduced personnel, advertising and professional fees.

Product development expenses decreased $102,397 (32.2%) in the first nine months. The decrease is the result of reduced personnel.

Over the past year the registrant has significantly restructured itself and reduced costs and expenses to help insure a return to profitability.

Interest expense decreased $16,203 (6.8%) reflecting lower interest rates.

Working capital increased $253,042 during the first nine months primarily the result of the conversion of convertible debentures, an increase in inventory, a decrease in accounts payable and accrued liabilities offset by a decrease in accounts receivable and cash. While the Registrant continues to experience problems with liquidity shortfalls, steps are being taken to ease the liquidity problems. These include raising equity funding via private placement of common stock and the conversion of debt plus accrued interest into common stock.

On December 9, 1991 the Registrant entered into an agreement with Malibu Colony Partners I (MCP-I) under which MCP-I agreed to make a $500,000 equity investment in the Registrant. For its equity investment MCP-I was to receive, in a private placement, 2,500,000 shares of newly issued Common Stock of the Registrant. The equity investment was to be made over a period of several months. MCP-I has made payments of $200,000 which have been segregated until the Common Stock is issued to MCP-I. There has been a delay in the final payment of $300,000, however, payment is expected to be received in the Registrants fourth quarter of 1992. Until the final payment is made MCP-I has agreed to assign certain collateral to the Registrant.

In February, 1992 the Registrant arranged for the conversion of $410,000 of 8% convertible subordinated debentures plus accrued interest into shares of newly issued Common Stock. The conversions were at the rate of either $.20 or $.30 per share with a total of 2,222,546 shares issued. The Registrant is actively pursuing the conversion of $499,425 in additional debt plus accrued interest. The Registrant has agreements with holders of $313,000 of debt to convert the debt plus accrued interest into shares of newly issued Common Stock.

In February, 1992 the Registrant raised $30,000 of equity funding through the sale of shares of newly issued Common Stock at $.30 per share.

In March, 1992 the Registrant raised $50,000 of equity funding through the sale of shares of newly issued Common Stock at $.30 per share.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In a patent infringement action brought by Ormco Corporation of Glendora, California, against the Registrant, the jury returned a verdict in favor of the Registrant by finding the patent-in-suit invalid. Ormco had filed suit against the Registrant for the alleged infringement of U.S. Patent No. 4,415,330, which relates to orthodontic brackets having a rhomboidal configuration. The Registrant denied infringement and asserted that the Ormco patent was invalid.

After a three week jury trial in the Federal District Court in San Diego, the ten member jury found the Ormco patent to be invalid for failing to disclose the best mode of practicing the invention. Although the jury was unable to reach a unanimous decision on the issue of infringement, it is now a moot issue in view of the invalidity of Ormco's patent.

In February, 1992 the Registrant and a former employee entered into a mutual settlement and release agreement under which all parties dismissed all complaints and counterclaims.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

A Form 8-K report was filed on December 9, 1991 and another Form 8-K was filed on February 24, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LANCER ORTHODONTICS, INC.
Registrant

Date March 31, 1992

By Douglas C. Miller
Douglas C. Miller, President

By Scott R. Striblen
Scott R. Striblen, Vice President, Controller

EXHIBIT A

SUMMARIZED FINANCIAL INFORMATION

LANCER ORTHODONTICS, INC.

Condensed Statement of Operations (Unaudited)

	For the three months ended		For the nine months ended	
	2/29/92	2/28/91	2/28/92	2/28/91
NET SALES	$1,448,583	$2,192,967	$4,865,930	$6,768,833
COST OF SALES	1,058,980	1,860,211	3,279,296	4,966,446
Gross Profit	389,603	332,756	1,586,634	1,802,387
OPERATING EXPENSES:				
Selling, general & administrative	576,087	794,265	1,707,072	2,559,688
Product development	65,779	91,736	215,996	318,393
EARNINGS(loss) from operations	(252,263)	(553,245)	(336,434)	(1,075,694)
OTHER (INCOME) EXPENSE:				
Interest expense	65,882	33,838	223,675	239,878
Other (income) expense, net	(5,817)	(5,258)	(19,020)	(10,866)
EARNINGS (LOSS) BEFORE INCOME TAXES	(312,328)	(631,825)	(541,089)	(1,304,706)
INCOME TAXES (BENEFIT) (NOTE E)	---	---	---	---
NET INCOME (LOSS)	$ (312,328)	$ (631,825)	$(541,089)	$(1,304,706)
NET EARNINGS (LOSS) PER COMMON SHARE (NOTE D)	$ (.047)	$ (.094)	$ (.081)	$ (.195)

LANCER ORTHODONTICS, INC.

Condensed Balance Sheets (Unaudited)

ASSETS

	2-29-92	05-31-91
CURRENT ASSETS		
Cash	$ --	$ 52,318
Accounts receivable less allowances of $109,206 and $126,500 respectively	1,080,907	1,744,537
Inventories	2,165,564	1,884,881
Prepaid expenses	5,859	30,825
Total current assets	3,252,330	3,712,561
PROPERTY AND EQUIPMENT (at cost)	2,734,834	2,958,132
Less: Accumulated depreciation	(1,804,790)	(1,730,809)
	930,044	1,227,323
INTANGIBLE ASSETS		
Marketing and distribution rights	315,400	334,075
Technology use rights	588,798	641,680
	904,198	975,755
OTHER ASSETS	6,167	8,749
TOTAL ASSETS	$5,092,739	$5,924,388

LANCER ORTHODONTICS, INC.

Condensed Balance Sheet (Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	2-29-92	05-31-91
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$1,309,735	$1,672,558
Note payable to bank	1,173,000	1,173,000
Current portion of long-term debt and capital lease obligations (Note B)	1,330,890	1,681,340
Total current liabilities	3,813,625	4,526,898
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Note B)	78,741	130,538
STOCKHOLDER'S EQUITY (Note C)		
Common stock, no par value: authorized - 50,000,000 and 10,000,000 shares respectively; Issued and Outstanding, 9,013,382 and 6,690,836 shares; respectively	3,302,791	2,828,281
Retained earnings	(2,102,418)	(1,561,329)
Stockholder's Equity	1,200,373	1,266,952
COMMITMENT AND CONTINGENCIES (Note F and G)	--	--
TOTAL LIABILITIES AND EQUITY	$5,092,739	$5,924,388

LANCER ORTHODONTICS, INC.

Condensed Statements of Cash Flows (Unaudited)

	For the nine months ended February 29	
	1992	1991
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net earnings (loss)	$(541,089)	$(1,304,706)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation & amortization	443,779	398,932
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	663,630	462,177
(Increase) decrease in inventory	(280,683)	578,225
(Increase) decrease in prepaid expenses	24,966	34,348
Increase (decrease) in accounts payable and accrued liabilities	(328,314)	(137,758)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	(17,711)	31,218
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property and equipment	(74,942)	(348,684)
Purchase of Technology Use Rights	- -	(9,463)
Other net	2,582	(371)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(72,360)	(358,518)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Net borrowings (payments) under line-of-credit agreement	- -	73,000
Proceeds of long-term debt	85,000	468,000
Payments of long-term debt and capital leases	(77,247)	(210,305)
Proceed from sale of common stock	30,000	— —
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	37,753	330,695
INCREASE (DECREASE) IN CASH	(52,318)	3,395
CASH AT BEGINNING OF THE PERIOD	52,318	46,047
CASH AT END OF THE PERIOD	$ --	$ 49,442

Supplemental disclosure of non-cash financing and investing activities:

In February, 1992, the Registrant arranged for the conversion of $410,000 in convertible debentures and $34,509 in accrued interest into Common Stock.

LANCER ORTHODONTICS, INC.

Footnotes to Financial Statements

Note A - Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. The unaudited condensed financial statements include the accounts of Lancer Orthodontics, Inc. (the Registrant) and its wholly-owned marketing subsidiary, RDS Associates, Ltd., after the elimination of intercompany accounts and transactions. The operating results for interim periods are unaudited and are not necessarily an indication of the results to be expected for the full fiscal year. In the opinion of management, the results of operations as reported for the interim period reflect all adjustments which are necessary for a fair presentation of operating results.

Note B - Long-Term Debt

Long-term debt and capital leases at February 29, 1992 and May 31, 1991 consisted of:

	2-29-92	05-31-91
Note payable to bank, interest at prime plus 2.0%, secured by inventories, equipment and receivables	$ 749,995	$ 749,995
Unsecured subordinated convertible debentures due in 1992, interest at 8%, 11% and 12.5%	204,425	629,625
Convertible unsecured promissory notes, interest at prime plus 2.0%	295,000	210,000
Unsecured promissory notes, interest at 10%	9,414	15,664
Obligation under sales territory repurchase, interest at 10%	30,000	55,670
Obligations under Capital leases	120,797	150,924
	1,409,631	1,811,878
Less current portion	1,330,890	1,681,340
	$ 78,741	$ 130,538

Note C - Stockholder's Equity

Common Stock Reserved

Shares of the Registrant's common stock reserved for issuance at February 29, 1992, and May 31, 1991 were as follows:

	2-29-92	05-31-91
Stock options:		
Outstanding	1,231,000	350,000
Future issuance	--	501,153
Warrants issued in conjunction with loans and convertible debt	1,559,167	1,346,667
For conversion of convertible debt	2,169,750	2,882,479
	4,959,917	5,080,299

The Registrant has authorized stock options that, if issued, would exceed the number of shares authorized under its stock option plans. The Registrant, at its next annual meeting, will put to the shareholders for vote a resolution increasing the number of shares available for stock options by 1,000,000.

Note D - Earnings per Common Share

Net income per common share is computed based on the weighted average number of common shares and common equivalent shares outstanding (6,690,836 and 6,690,836 at February 29, 1992 and February 28, 1991 respectively) during each period. Outstanding stock options and warrants are common stock equivalents but they have not been included in the number of shares outstanding at February 29, 1992 and February 28, 1991 because the effect would be anti-dilutive.

Note E - Income Taxes

The Company adopted Statement of Financial Accounting Standards No. 96 (SFAS No. 96) effective in fiscal year 1988 which requires an asset and liability approach for financial accounting standards for income taxes.

At May 31, 1991, the Registrant had a net operating loss carry forward of $2,332,000 for tax purposes. In addition, at May 31, 1991, the Registrant has approximately $344,000 of temporary differences representing future deductible amounts, and if recognized, will be shown as a reduction of taxable income. In accordance with the provision of SFAS No. 96, no reduction to income tax expense was recorded in 1991.

Note E - Income Taxes (Continued)

As of May 31, 1991, business tax credits which may be carried forward to reduce federal income taxes in future years aggregated approximately $218,000 which expire between 1993 and 2006.

Note F - Litigation

The Company is a party to two lawsuits arising out of the normal conduct of its business. One lawsuit involves the alleged violation of fiduciary and contractual relationships with the Company by a former employee, and one lawsuit alleges infringement by the Company of a patent held by Class One Orthodontic, Inc.. While the ultimate results of the lawsuits cannot be predicted with certainty, management, based upon advice of legal counsel, does not expect these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company.

Note G - Manufacturing Agreement

In May, 1990, the Registrant entered into a manufacturing subcontractor agreement whereby, the subcontractor agreed to provide manufacturing services to the Registrant through its affiliated entities located in Mexicali, B.C., Mexico. The Registrant has moved the majority of its manufacturing operations to Mexico. Under the terms of the agreement the subcontractor will manufacture the Registrant's products based on an hourly rate per employee based on the number of employees in the subcontractor's workforce. As the number of employees increases the hourly rate decreases. The agreement is for a term of 36 months with two option periods of 36 and 48 months, respectively. The Registrant has retained the option to convert the manufacturing operation to a wholly-owned subsidiary at any time after the initial 24 months of the agreement has lapsed. The cost of conversion is based on a declining scale from the 24th to the 60th month of the agreement.